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The Mess at Consumers Union
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President Reagan, in the cover photograph by Dennis Brack-Black Star, squints through the widening deficit. As projected by Bear Stearns economist Robert Sinche, the gap grows from $57.9 billion in fiscal 1981 to $174.5 billion in 1984.

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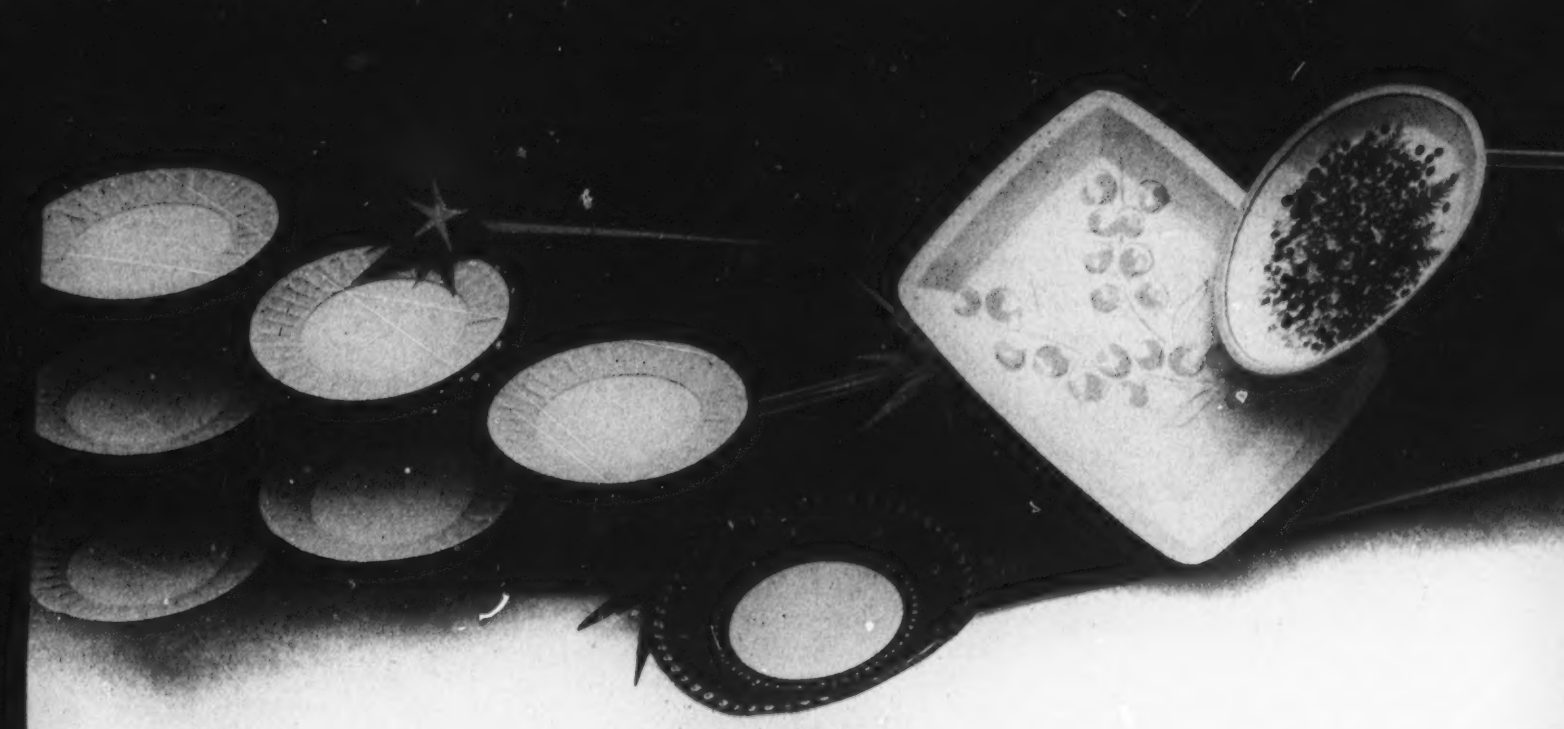

MARKETING

Plate Wars

The margins are paper-thin and the casualties heavy in the disposable-dish market.

by JEREMY MAIN

The demographics of the paper-plate business look terrific—at least on paper. More and more Americans live the sort of lives that discourage dishwashing. Singles, working couples, and unsociable souls who snack in front of the TV set instead of sitting down to a family meal are all potential customers for disposable dishes. The fast-food chains create another big opportunity. How would McDonald's ever manage if it had to wash up after 35 billion hamburgers? Like the portable tape deck, the paper plate would seem to have found its moment in history.

The moment finds manufacturers like American Can (Dixie brand), Maryland Cup (Sweetheart), Keyes Fibre (Chinet), Continental Group (Bondware), and half a dozen others hurling plates at each other in a highly competitive struggle. The paper-plate industry may be only a sideshow in the clash of great corporations, but it is a mighty lively sideshow. Mobil recently blasted into the market in its customarily roughshod manner with a petroleum-based "foam" plate that makes the competition decidedly tougher. After playing unsuccessfully on the edges of the market for years, St. Regis has fired off a well-promoted sales effort. On the other hand, two major companies, Georgia-Pacific and Potlatch, have quit the business and three others, including American Can, have sold or are about to sell their paper-plate subsidiaries.

Research associate: Anne B. Pillsbury

Sales in this stormy marketplace total some $2.4 billion a year, by the estimate of Ronald N. Paul, president of Technomic Consultants, a Chicago-based firm that works with the industry. That figure includes ancillary products, such as napkins and plastic flatware, which some of the manufacturers also produce. It does not include the high-priced party-ware such as Hallmark's, sold through specialty stores.

But profit margins remain paper-thin. The established manufacturers keep searching fruitlessly for the key that will turn disposables into steady moneymakers. "It's hard to see how anyone in their right mind would come into this business from scratch in an aggressive way today because margins are down, costs are up, and it could be difficult to recoup a big investment," says Will Willis, vice president for consumer products at Keyes Fibre.

The basic trouble with the business, one veteran explains, is "there's no juice in plain paper plates." In this case, juice refers to profit margin and not to the gravy that's likely to seep through a plate onto your lap if you linger over dinner. The plain plate is a flimsy piece of paperboard 7/1,000ths of an inch thick that tends to buckle under the weight of a slice of pizza. It retails for about one penny, which doesn't leave much room for profit.

Manufacturers keep trying to squeeze some juice out of this unpromising material by giving it "added value." They put gaudy designs on plates, add laminations to stop seepage, make the plates sturdier, create new shapes and uses. More than half the plates sold today are either decorated paper or relatively substantial products made from wood pulp or polystyrene foam. They fetch 3 cents to 7 cents each, and have correspondingly better margins. In the newest breakthrough, several companies have introduced what they call "ovenable" plates that can be used for

Paper sculpture by Sally Jo Vitsky

cooking as well as eating. The manufacturers have pushed brand names, improved displays, and worked on the usual market lures of promotions, coupons, and tie-ins.

All these efforts have met with very modest success, though sales are growing somewhere between 3% and 6% a year—statistics about this industry tend to be elusive, like profits. Fully 44% of the dollar volume is still made up of those profitless penny plates. Moreover, something like $1.6 billion of the industry's sales are to fast-food chains, institutions, and sports arenas, which buy largely on price. Margins should be higher in supermarkets, but there, too, buyers tend to treat plates as they treat commodities like potatoes. They bargain for the best price and don't much care whose product they stock.

Why go home to plastic?

As yet, no manufacturer other than Dixie has succeeded in creating a truly proprietary product. Consumers don't know the brands and have little loyalty. "Let's face it, disposable dishes are still something people apologize for," apologizes Tony Mazzarelli, marketing manager for Amoco Food Service Products, one of the less successful manufacturers. "I don't want to go home and eat off plastic plates. I don't think most people do, really."

From the beginnings of the paper-plate industry early in the century, manufacturers have racked their brains trying to find ways of marketing their products. The first appeal was sanitary. Dixie got its start when a Kansas health officer, Dr. S. J. Crumbine, observed children on a train drinking out of the same unwashed communal cup that tuberculosis patients were using. He banned the common cup, and the disposable cup was launched. In those early days, the Lackawanna Railroad advertised disposable cups on "all through trains" with a picture of Phoebe Snow, the emblem of the line's service, and a verse: "On railroad trips/ No other lips/ Have touched the cup/ That Phoebe sips."

In the struggle to rise above the penny plate and its wretched margin, manufacturers began adding decorations in the 1960s and using them as a serious competitive weapon in the 1970s. Decorated, laminated plates are relatively easy to make. The plates are stamped out of paperboard imprinted with a design and coated with nitrocellulose. The result is somewhat more rigid than the penny plate, has a glossy surface, and, in the tactful phrase of a Maryland Cup executive, is less likely "to transfer absorbance," that is, to leak.

The value added by decoration is considerable. John Cavalier, the plump, ebullient vice president and general manager of Dixie for American Can, points out the difference. A ton of paperboard costs $575. Made into penny plates, that ton is worth $1,000, he says. But add four- or six-color printing and lamination, and a ton of paperboard acquires a value of $3,000 or more. Cavalier says the decorations do add considerably to the cost, though he won't say how much. He doesn't apologize for paper plates. He has six daughters and the family uses paper regularly.

A switch to soft colors

The decorations favored by Dixie and others tend to improbable bunches of yellow and orange flowers, which are apt to take on a lurid quality in combination with, say, mustard and ketchup. Throughout the 1970s the best-selling design was Dixie's much-imitated Spring Medley. Yellows and oranges apparently sold best because they matched the most prevalent kitchen color, "harvest gold."

Dixie is now switching its whole color scheme to softer tones, to rusts, browns, and beiges. Says Cavalier, "We're very aware of color trends because it's crucial to be able to read them early." How were these trends read? By watching Burger King and McDonald's, for whom Dixie and others produce custom designs; they are toning down their eateries with more wood, brick, and plants. The new styles are flowing rapidly to other customers. For smaller fast-food clients, Dixie is introducing Ivy, a pattern of small brown and reddish leaves resembling nothing known to horticulture but embodying, in the words of a Dixie spokesman, "the essence of ivy." For retail customers, Dixie has brought out Flower Patch, a bunch of calico flowers against a beige trellis. St. Regis is going off in another direction by introducing a rela-

tively sophisticated floral design called Enchantment—a sample of which graces the chart on page 80.

Molded pulp plates are known in the trade as the Cadillac of the industry. They earn this improbable sobriquet—along with higher margins—because they boast a smoother, more finished look than stamped plates and are more substantial. Keyes Fibre, whose Chinet brand leads the field, boasts that a customer wrote recently to complain that her Chinet plates got soggy the third time she put them through the dishwasher. But since the plates are molded from liquid pulp, decorations cannot be applied before the plates are made. Adding print later makes the process more expensive. That's why Keyes decorates only the rim of its plates with a discreet garland of flowers.

If the disposable plate saves labor, how much more of a boon would be disposable cooking ware that could eliminate the hand-scrubbing of pots encrusted with the remains of dinner. That's the rationale, anyway, for the newest value-added products. With ovenable dishes—well, partly ovenable dishes—the industry is reaching the zenith of its technology, in apparent defiance of the laws of thermodynamics. Dixie, which won't disclose what it does to paper to inhibit its natural inclination to scorch, says one line of its new dishes can be used in an oven heated to 400° F., though not in a hotter oven or a broiler. (All paper and foam dishes can stand up to a microwave oven, although the oils, fats, and sugar in food can heat up to more than the melting point of polystyrene, with results that could be inedible.)

Grousing about Mobil

By now, paper-plate manufacturers should have been reaping handsome rewards from these efforts to add value. But it hasn't happened. The main reason, say the disgruntled platemakers, is Mobil Chemical Co., aided and abetted by Amoco, and its aggressive effort to sell foam plates. "They've really whored up the market," says an exasperated competitor, who grouses that Mobil sells cheap to buy market share. Mobil says its plates are priced to make a profit.

Amoco began selling foam plates back in 1967 but has had little luck, mostly because it lacked the right retail know-how. Mobil had the Hefty-bag brand name and a tough, responsive retail network in the supermarkets and discount stores, so when Mobil's Hefty plates went on sale in 1978, they were a success. Last year Hefty shot up to third place in the retail market, albeit a distant third, behind Chinet and Dixie.

The average price of foam plates has dropped 10% since 1978, and foam now has 10% of the retail market. Since Dixie increased its share of the market last year, while Keyes's growth rate slowed, Mobil's gain seems to have been chiefly at Keyes's expense. Plain Hefty plates cost 3½ to 4 cents and decorated Hefty plates 5 to 6 cents, so Mobil competes at the price levels of both decorated and pulp plates. Paper-plate people are replying with foam plates of their own. (For years they have been making foam products for the fast-food industry, which values foam's insulation.) Dixie is beginning to sell a foam line consisting of La Plate, La Cup, and La Bowl. The line is decorated with what appears to be a sprig of yellow berries.

The problems of the industry go well beyond foam, however. Years of low margins have discouraged companies from putting money into market research and promotion. TV advertising has been minimal,

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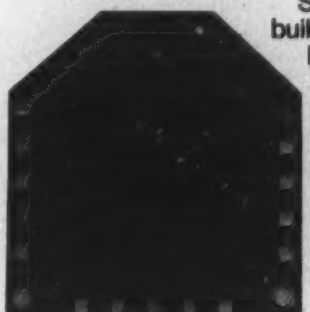

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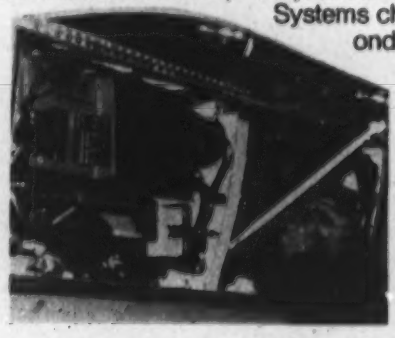


and most brand names are unrecognized. And the very decorations meant to say "buy me" may actually have put off customers. St. Regis is pushing its more sophisticated design because it believes that 30% of the public has turned up its nose at the decorations offered so far. Some further resistance to paper plates may have been aroused by the environmental argument against disposables, although no one knows how much.

Supermarket managers would generally rather think about other things than paper plates. Demand remains largely seasonal, with sales concentrated in the summer and at the end of the year, so the shelf space allotted to them tends to shrink at other times. Store managers prefer merchandise that sells year-round for a high margin.

Optimists in the industry think they know how to win more shelf space. "The key to this whole business is merchandising," says John Coleman, a New England supermarket broker who has handled Chinet for years. "Which brand of plate sells best depends almost entirely on what kinds of promotions we can arrange." Until recently, paper plates were pretty much just stacked on shelves and left to sell themselves. The industry is trying to change this untidy approach. Dixie, for instance, provides a rack for its plates so that they can be displayed standing up with their decorations showing. At Keyes, Will Willis has instituted a series of the promotions, coupons, and tie-ins that are standard for other packaged goods but have been missing in paper plates. As befits a 29-year-old vice president with an MBA from Columbia University, Willis takes an aggressive attitude toward his work, which may represent a new state of mind for the industry. Willis gets to the office at six every morning, so he apparently has faith in the future of paper plates.

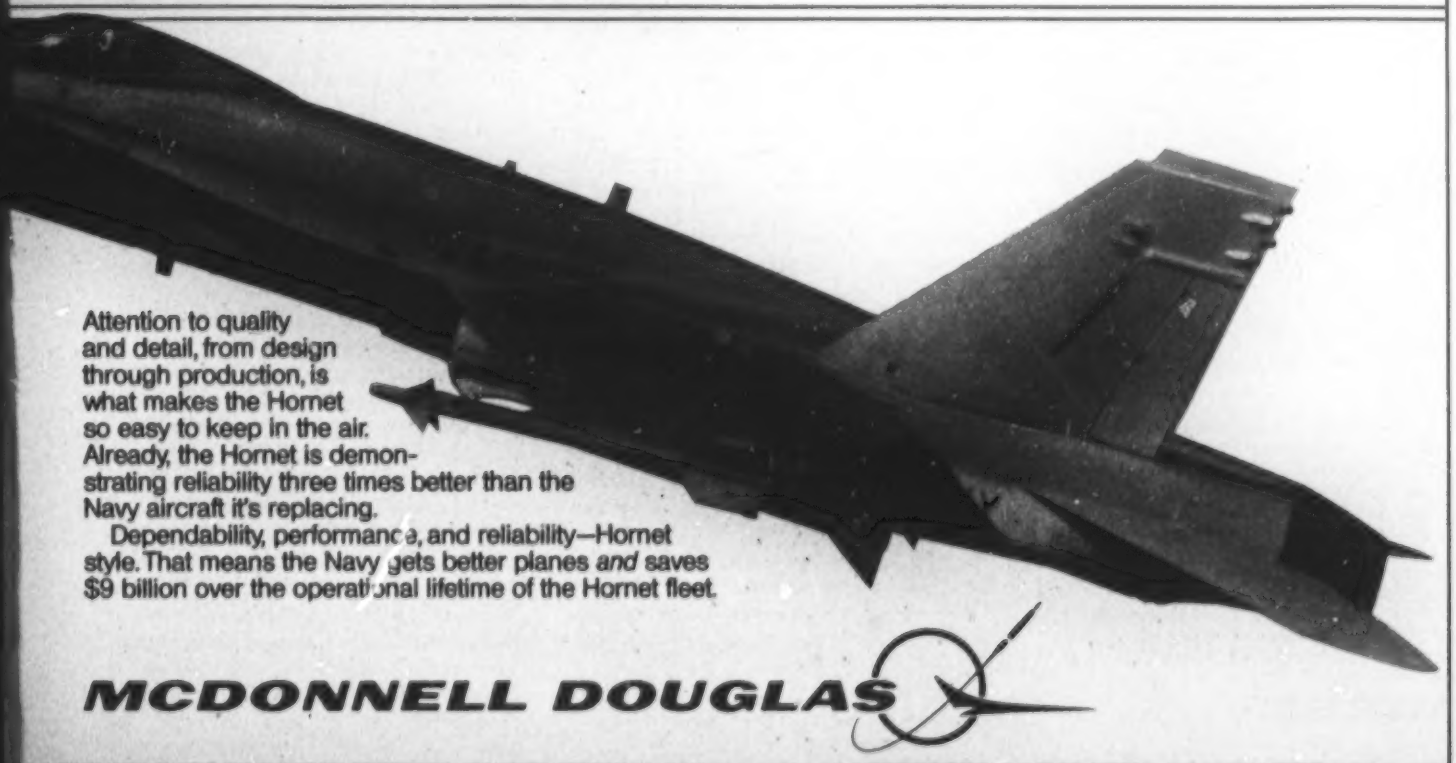
A barrage from St. Regis

The retailers may become more welcoming as TV advertising brings more attention to brand names, if not always to the plates themselves. Mobil got a lot of help last year after it promised $12 million of network advertising for a variety of Hefty products. Dixie and Keyes also advertise their plates nationally on TV. To promote its new lines of plates, St. Regis promised to send out so many TV news clips, radio spots, newspaper features, magazine articles, and press kits that the results would be something St. Regis described as "a barrage of 300 million all-media consumer impressions." But the bandwagon may not pick up many more riders, since other manufacturers feel their margins don't justify the expense.

Who's winning in the plate wars? Hardly anybody, it seems. Not only have Georgia-Pacific and Potlatch dropped out, but Diamond International and St. Regis have barely made sales headway in recent years. Sales of the Lily division of Owens-Illinois have declined. It's hard to know how some of the manufacturers are doing because they are smallish pieces of large businesses. Bondware is the fourth-best-selling brand in the retail market, but its owner, Continental Group, says earnings are "insignificant" in the big corporate picture. Mobil claims Hefty is profitable, but will not break out its figures.

Maryland Cup, an almost pure play in disposables, is the only big independent paper-plate company and the only one to report substantial profits. Last year's sales of $647 million yielded a comfortable return on equity of 14%. The total includes such non-paper businesses as ice-cream

ITS OWN PULSE.



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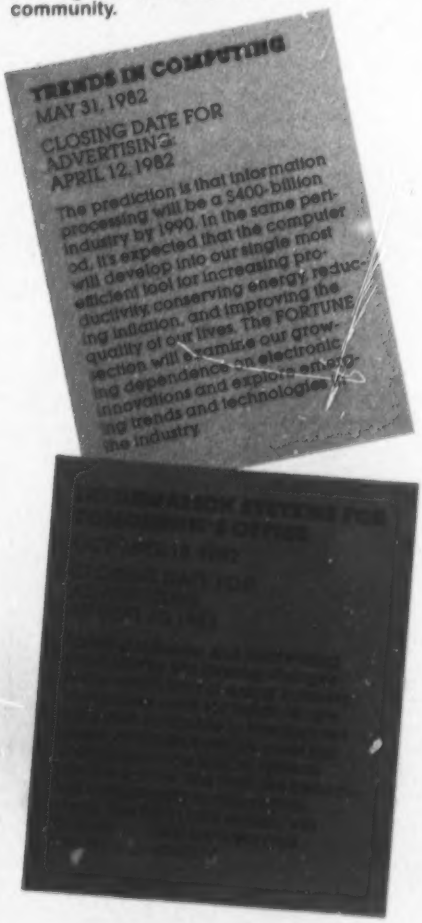
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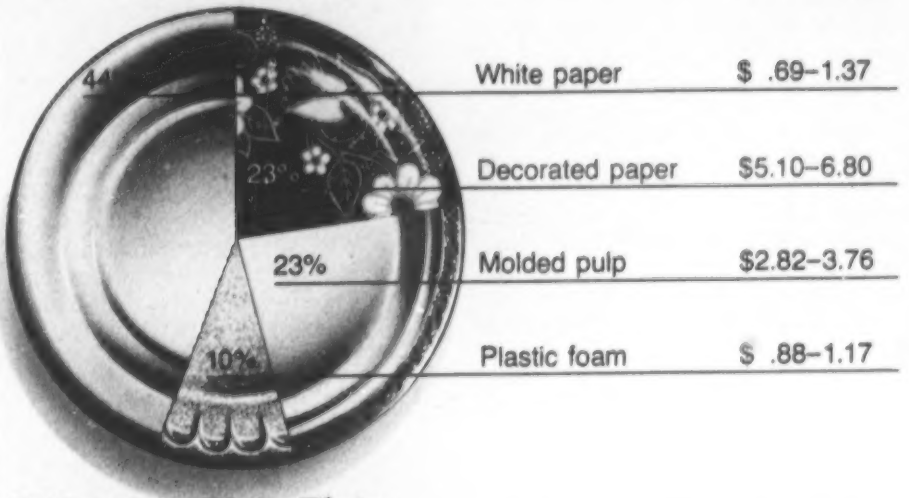

Eating into Plain Plates

The paper-plate industry has been trying for a decade to get customers to forsake plain plates for fancier, high-margin items. As shown in this chart, which depicts sales of standard-sized (9-inch) plates in food outlets, it has partly succeeded. Decorated plates give the retailer the highest return on shelf space for each turnover of stock. Bulkier pulp and foam plates take up more space but turn over briskly, apparently because the public perceives more value in bulk.

cones and plastic straws. A well-established and well-managed company, Maryland Cup concentrates on institutions and fast-food companies, rather than the more competitive consumer market.

The two big sellers to consumers, Dixie and Keyes, both report they are profitable. Keyes had earnings of $12 million on $229 million in sales last year. American Can does not break out Dixie earnings, but sales amounted to $500 million out of American Can's total of $4.8 billion, and Cavalier declares the profits were enough to make him "proud."

However, both Keyes and Dixie are changing hands. Arcata Corp. just sold Keyes to a Dutch drum and container manufacturer, Royal Packaging Industries Van Leer BV. Those masters of the leveraged takeover, Kohlberg Kravis Roberts & Co., were acquiring Arcata itself and said they would *lower* their bid by $1 a share if Keyes were included in the deal. It's a bit like paying the junkman $25 to tow away an old car. Van Leer was able to get Keyes for a bargain price (undisclosed) and Arcata took an after-tax loss of $70 million.

American Can is negotiating the details of the sale of its paper operations, including the Dixie division, to James River Corp., an aggressively growing paper company. Faced with the need to modernize both its paper and metal container plants, American decided it could afford the capital costs of only one and chose its primary business, cans. The company also wants to divert some of its assets into newly acquired financial businesses. James River will acquire the paper operations for $330 million in cash plus $90 million in securities.

Owens-Illinois sold most of its Lily division for book value—about $150 million—last September. The buyer, Lily-Tulip, is a new company formed by the ubiquitous KKR partnership. KKR won't talk about the purchase, but it's safe to assume it is more interested in arranging a profitable turnaround than in a long-term involvement in paper plates.

The near-simultaneous sale of the three companies does not by any means indicate the paper-plate industry is collapsing. But certainly these divisions did not seem as profitable or as promising to their former owners as did other divisions. There's still not much juice there. The supermarkets persist in treating paper plates as a commodity, and bargain mainly on price when the bidding begins every January for what they will sell in the summer. Image building remains a Sisyphean undertaking. "It is," says Amoco's Mazzarelli, "a new ball game every year." F